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SUBJECT: COTE D'IVOIRE'S BANKING SECTOR

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11. (SBU) Summary: The performance of Cote d'Ivoire's banking system in the government-controlled south has stabilized since the beginning of the political crisis in 12002. Profitability is relatively strong and the total asset base has recently grown modestly. However, these results mask a troubled client base, as non-performing loans and outright defaults have increased markedly due in large measure to the continued political and economic crisis. Banking remains concentrated largely in the hands of subsidiaries of French banking concerns. Banking executives acknowledge the need to expand access to banking services through microfinance and other mechanisms, but many Ivorians remain outside of the banking system. Ebanking and eservices remain underutilized. Public borrowing is on the rise, according to industry sources, and could jump higher still when the long-delayed elections campaign begins. The Northern, Forces Nouvelles (FN)-held areas of the country remain isolated from banking services, exacerbating the economic difficulties of northerners, retarding the administrative reintegration of the country and encouraging the proliferation of informal money-transfer operations (the "havala" system). Without a resolution of the crisis, the banking sector will continue to sag. However, the revival of the banking sector, especially in the North, would itself be a key step towards resolving the crisis. End Summary.

#### Background and Statistics

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12. (U) As of December 2005 (the last point for which accurate statistics are available), financial institutions' balance sheets totaled CFA 2 trillion (USD four billion), up 1.7 percent from the previous year, accounting for 29.5 percent of the West African Economic and Monetary Union (WAEMU) market. From 2004-05, net profitability was up 47 percent to CFA 28 billion (USD 56 million), generated primarily by customer service operations, currency trading, and securities and leasing. According to sources, while lending operations produced meager results, overall return on investment stood at a very respectable 20 percent on a total capitalization base of USD 250 million. Overall loans outstanding to the private sector are estimated at CFA 1.2 trillion (USD 2.3 billion), an increase of 1.4 percent from 12004. As measured against GDP, the value of total lending to the private sector stands at 13 percent, which the WAEMU considers low. This phenomenon partly reflects the banks' cautious lending policy and the lack of long-term lending, derived from the difficult business environment caused by the ongoing political crisis. In contrast, since 2002, lending to the government has increased 17 percent. Overall, asset quality of bank portfolios has deteriorated: non-performing loans rose by 31.8 percent from 2004 to 2005 to a current total of USD 450 million, with a significant share (44.2

percent) of loans in actual default. Inflation dropped from 3.9 percent in 2005 to 2.5 percent in 2006.

13. (U) The banking system includes 19 credit institutions (against 22 in 2003), of which 17 are banks (ten in 2003), two are specialized lending institutions, one a coffee and cocoa financing group and the other an automobile financing company (down from five financing companies in 2003). The Ivorian banking sector is concentrated among the seven largest banks, with subsidiaries of French banks accounting for nearly 60 percent of the customer base, but approximately 40 percent of total assets and 30 percent of total capitalization. Two of these seven leading banks are Ivorian. The following list includes all banks and financial institutions, with figures up to date through 2005 as reported to the BCEAO, ranked by total assets:

a. Banque Nationale de l'Investissement (BNI, Cote d'Ivoire), 100 percent state-owned, traditionally specializing in state debt instruments but beginning to diversify its portfolio among a range of capital-intensive industries, such as petroleum production. It is capitalized with USD 41 million (CFA 20.5 billion).

b. Banque Internationale pour le Commerce et l'Industrie (BICICI), a retail bank owned by the French bank Banque Nationale de Paris (BNP) with capital of USD 33 million (CFA 16.67 billion).

c. Societe Generale des Banques en Cote d'Ivoire (SGBCI), the bank with the largest number of retail clients and in which the French group Societe Generale owns a majority, with capital of USD 31 million (CFA 15.6 billion).

d. Banque Internationale Pour l'Afrique Occidentale (BIAO), a retail bank with capital of USD 20 million (CFA 10 billion). Effective December 11, 2006, the Belgian group

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Belgolaise sold its 80 percent stake in the BIAO. The Ivorian Insurance Group (the Nouvelle Societe Internationale d'Assurance) now owns 60 percent of the shares while the Ivorian private pension fund "Caisse Nationale de Prevoyance Sociale," (CNPS), owns 20 percent and the Ivorian government owns the remaining 20 percent.

e. Societe Ivoirienne de Banque (SIB), a retail bank owned by the French Bank Credit Lyonnais, with capital of USD 8 million (CFA 4 billion).

f. Ecobank, a diversified retail bank based in Togo which has operations in 15 West and Central African countries and capital in Cote d'Ivoire of USD 6 million (CFA 3.2 billion).

g. Bank of Africa, a commercial lending bank (it has no deposit accounts) owned by a group based in Benin (but with a fast-growing network of local banks throughout West and East Africa) and possessing 5 million in capital.

h. Citibank. Citi is the only U.S. bank present in Cote d'Ivoire, and has capital of USD 15 million invested (CFA 7.5 billion). It has only 465 clients which are primarily corporate accounts and very few individual accounts.

i. Banque Atlantique de Cote d'Ivoire. Owned by a consortium of mainly Ivorian investors and companies, this bank focuses on lending to large commercial enterprises and is capitalized with USD 14 million in assets (CFA 7 billion).

j. Standard Chartered Bank. 100 percent owned by its British parent, this diversified bank has USD 30 million in capital (CFA 15.3 billion).

k. Versus Bank. Formed in March 2004 by Ivorian management but largely financed by foreign investors, this bank has a wide-ranging portfolio and USD 6 million in capital (CFA 3 billion).

l. Compagnie Bancaire de l'Atlantique en Cote d'Ivoire. Owned by Banque Atlantique (see i) and specializing in the financing of imports/exports and capitalized with USD 6 million (CFA 3 billion).

m. Banque de l'Habitat de Cote d'Ivoire. Sixty five percent owned by individual investors and 17.5 percent owned by the Ivorian government, it specializes in real estate lending and has \$3.4 million in capital (CFA 1.8 billion).

n. Omnifinance. Private Ivorian investors own 65 percent and the same financial group invested in Bank of Africa owns 20 percent. This bank specializes in lending to small and medium sized enterprises (SMEs) and has USD 6 million in capital (CFA 3 billion).

o. Bank pour le Financement de l'Agriculture. The Coffee and Cocoa Regulation Fund owns 48 percent and private Ivorian investors own the remaining 52 percent. It has USD 4 million in capital (CFA 2 billion).

p. Cofipa Investment Bank de Cote d'Ivoire. This Congo-Brazzaville-based bank concentrates on commercial banking and has USD 6 million in capital (CFA 3 billion).

q. Societe Africaine de Credit Automobile. A group owned by a diverse set of holding companies (the largest of which owns a Moroccan auto distributor), this financial institution concentrates on auto loans and has USD 2.4 million in capital (CFA 1.3 billion).

r. Fonds de Garantie des Cooperatives Cafe-Cacao. This non-bank financial institution (it has no depositor accounts) is 42 percent owned by cocoa and coffee cooperatives, 24 percent owned by exporters, 24 percent by various banks and 10 percent by the Ivorian government. It specializes in lending to cooperatives who would otherwise have difficulty in meeting borrowing requirements set by banks. It has a small capitalization base of USD 600,000 (CFA 300 million).

14. (U) The banking sector in Cote d'Ivoire is part of the financial sector of the WAEMU economic region, whose Central Bank is the "Banque Centrale des Etats de l'Afrique de l'Ouest" (BCEAO). The BCEAO is the sole issuer of currency in the WAEMU region and organizes and supervises banking and financial activity. Banking regulation is carried out by the WAEMU's regional banking commission "Commission Bancaire" (located in Abidjan). Market entry requirements for the Ivorian banking sector are relatively low; the minimum capital requirements are CFA 1 billion (USD 2 million) for banks and CFA 300 million (USD 600,000) for non-banking institutions.

15. (SBU) According to executives from top banks BNI, Citibank and Ecobank, microfinance will be a key focal point in business planning and expansion. Prior to the outbreak of the 2002 crisis, the development prospects of this sector were significant; in 2000, the country counted 16 microfinance institutions, offering a total of 287 points of service (for about 331,000 customers), compared with 154 bank branches. The large banks and new players (such as the Bank

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of Africa) are attempting to expand access to banking services to underserved markets. Executives from Ecobank tell us that they value the prospects of small business lending highly for its potential to generate new revenues and employment in the region. Citibank has a high-profile public relations campaign to stress to its clients the convenience and efficiency of its e-banking, a tremendous advantage to a small-but growing concern. However, in general the low rate of access to the banking sector for the general population remains a major problem affecting both small enterprises and potential individual retail clients: Ivorian society is somewhat "under-banked" compared to other West African countries, as Ivorian financial institutions account for 31.3 percent of all WAEMU assets, whereas the Ivorian GDP is 37 percent of the regional economy. Industry sources point to this as another indication that there is considerable potential for expanded banking services. However, bankers privately acknowledge that banking fees are high and e-services are scarce in comparison to other relatively high-income African countries, particularly Anglophone countries.

16. (U) Even though the banks tell us they are interested in expanding their lending to small and medium enterprises (SMEs), few of them have actually done so. Currently, while two financial institutions offer services for SMEs, the

primary sources of such lending is the Ivorian National Business Development Fund (FIDEN), created in 1999 by the Ministry for Industry and which gives priority to export and import-substitution businesses.

#### Monetary Policy, Macroeconomic trends, Impact of Political Situation on Banking

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¶17. (U) Inflation in Cote d'Ivoire has been contained by the tight monetary policy of the BCEAO, whose primary objectives are to maintain stability between the CFA franc and the euro and to control inflation in the CFA zone. The BCEAO's monetary policies closely track those of the European Central Bank (ECB) by design. Since its inception in 1945, the BCEAO deposits 65 percent of all foreign exchange receipts in France's national treasury to ensure the French Central Bank would have access to sufficient hard currency if ever needed to address monetary difficulties and thus ensure the CFA's stability. An example of this close association can be found in the stability of their respective interbank rates: all through 2005 the BCEAO interbank rate stayed close to 4.88 percent while the ECB's stayed similarly close to 2.1 percent. In 2006, the BCEAO's interest rates increased modestly in step with the ECB's. The CFA franc is pegged to the Euro at a rate of 655.96 CFA to 1 Euro and it is likely that the CFA peg will remain. Sources in the industry cite continued strong commodity prices and consistently strong political opposition to a CFA devaluation as central underpinnings of the continued peg. The CFA was last devalued in 1994 as part of an effort to aid African exports.

As a result of the rise in the value of the Euro vs. the dollar in recent years, a 2005 IMF working paper suggests a moderate worsening of the terms of trade and actual trade performance in exporting to the U.S. while exports continue to rise moderately to the EU.

¶18. (SBU) Banking executives worry that continued delays in holding Cote d'Ivoire's elections will only prolong the economic uncertainty and further delay the resumption of international support. The Director General of BNI predicted that campaign spending in the run-up to planned elections (either in 2007 or later) will push the fiscal deficit up by an additional 1.8 percent of GDP, further reducing the supply of capital available for borrowing by the private sector. Although a successful election would likely result in the resumption of international funding and budget support, BNI expects government expenditure to remain high and the fiscal deficit to increase further, to 2.5 percent of GDP, in 2007.

¶19. (SBU) The ongoing political crisis has disrupted banking operations, causing a reduction of the volume of pre-crisis bank transactions of approximately 10 percent. Of 165 bank branches, 32 have closed. The banking sector has been affected by business closures, lost sales and job losses in the economy. Client insolvency and an increase in unpaid debts owed by both businesses and individuals has been the inevitable result. Because of the increasing risks, banks have preferred to concentrate resources on short-term lending to established businesses and on lending to the government. Banking executives predict that challenges for the banking sector include trying to expand long-term lending and taking more aggressive action against non-performing loans.

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Executives predict revenue will remain flat due to the sluggish domestic economy (economic performance would be even worse without recent increases in oil and gas revenues) and the impact of the continued departure of expatriates on many small and medium-sized businesses.

#### Banking in the North

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¶10. (SBU) The crisis in 2002 left the country divided both geographically and financially. Since 2002, all accredited financial institutions previously doing business in the FN-held north have closed, due to the lack of security and

repeated bank robberies since the crisis (reftel A). As a result, residents of the North wishing to do banking business must travel to Yamoussoukro or Abidjan, an expensive journey taking several hours. Travelers must pay bribes to pass through the many road checkpoints, both government and FN, along the way. The absence of any accredited financial institution is a key underlying obstacle to the administrative reintegration of the country (reftel A), because government employees, including teachers, are paid through their bank accounts. The leader of the FN, Guillaume Soro, has promised to guarantee security for any bank that is willing to return to the FN-held north but so far, banks remain hesitant. (Note: Soro held talks on this issue with Finance Minister Delegate Charles Diby on January 15, and Diby announced on January 31 that the Finance Ministry would reopen its presence in the North at the end of February to begin rebuilding the financial infrastructure needed by banks to restore their operations. End Note.) During a recent trip around the North by EconOfs, businesses, such as textile mills, cashew processing facilities and cotton and nut producer cooperatives, all appealed to the U.S. to encourage a return of the banks to the North.

¶11. (U) There is one savings and loans institution that covers all of the FN-held territory: the Popular Savings, Loan and Credit Bank of Cote d'Ivoire. However, it is not accredited by the Central Bank, and its capitalization and deposit base remain small (total capitalization stands at CFA 65,000,000, or USD 130,000). It offers retail banking services to a total of 8,440 clients, of which 2108 are in Bouake. It opened in February 2005 and since then has opened eleven full-service branches and mini-branches. Women account for 45 percent of clientele, but the large cotton and cashew cooperatives represent the majority of its biggest clients. It offers a range of services to account-holders, but the fee to open an account is prohibitively high, especially for small farmers or merchants for whom the average loan is around CFA 25,000 (USD 50). Lending interest rates are between 10 and 15 percent.

#### The Havala System

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¶12. (SBU) According to a local official in the northern city of Korhogo, the havala system (the traditional form of long-distance money transfer found throughout West Africa and the Middle East), is very active in the north, to the extent that it has become a primary method for transferring sums of money from the government-controlled south to the FN-held north. According to a consensus of the local council of Korhogo, the transfer fee is usually 10 percent of the transferred amount or, for small amounts, a flat rate of CFA 5,000 (USD 10). A client in one zone of the country makes contact with a middleman who in turn contacts an associated moneylender in the other zone. The client pays the amount plus the 10 percent fee or flat rate, and the moneylender in the other zone delivers the cash to the indicated person. This process can take up to three days, as the actual physical transfer of money goes via drivers transporting goods who routinely drive the north-south route through the center of Cote d'Ivoire.

#### Comment

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¶13. (SBU) Cote d'Ivoire's troubled banking sector is a symptom of the country's protracted political crisis, which has produced an ongoing economic malaise that has dragged down banking sector performance. The banking sector will continue to sag without progress in the now-stagnant peace process. However, the revival of the banking sector, particularly in the North, would itself be a key step in resolving the country's political problems, and thus reinvigorating the broader economy.

Hooks